

D.T.E. 02-23

Petition of Fitchburg Gas and Electric Light Company for Approval of a Proposed Price-Cap Performance-Based Regulation Plan for its Electric Division.

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FOR: FITCHBURG GAS AND ELECTRIC LIGHT
COMPANY
Petitioner

I. INTRODUCTION

On April 16, 2002, Fitchburg Gas and Electric Light Company (“Fitchburg”) filed with the Department of Telecommunications and Energy (“Department”) a proposed PBR plan for its electric division (“Filing”). The Department docketed this matter as D.T.E. 02-23.

Also on April 16, 2002, Fitchburg filed a proposed PBR plan for its gas division, which the Department docketed as D.T.E. 02-22. Later, on May 17, 2002 Fitchburg filed a general rate case for its gas and electric divisions, which the Department docketed as D.T.E. 02-24/25.¹ The Department issued an Order in D.T.E. 02-24/25 on December 2, 2002.

II. BACKGROUND

In 1995, the Department concluded a generic investigation into the theory and implementation of incentive regulation for all local gas and electric distribution companies under our jurisdiction. Incentive Regulation, D.P.U. 94-158 (1995). In addition to developing the criteria for the evaluation of incentive ratemaking proposals, the Department encouraged all gas and electric distribution companies to file proposed performance-based regulation (“PBR”) plans. Id. at 65-66. Shortly thereafter, the Department stated that we expect PBR proposals to be part of each electric distribution company’s next base rate case submitted to the Department. Electric Industry Restructuring, D.P.U. 96-100, at 116 (1996).²

¹ Originally, the Department docketed the rate case for the gas and electric divisions separately. The Department consolidated these dockets on July 18, 2002.

² The Legislature endorsed this policy with the subsequent enactment of G.L. c. 164,
(continued...)

In Boston Gas Company, D.P.U. 96-50 (Phase I) (1996), the Department approved the first PBR plan for a distribution company in Massachusetts. This PBR plan had a term of five years and relied on a price cap mechanism (“Boston Gas Company’s PBR Plan”).³

Subsequently, in Fitchburg Gas and Electric Light Company D.T.E. 98-51, at 5-7 (1998), a rate case for Fitchburg’s gas division, the Department ordered Fitchburg to file a PBR plan by November 30, 1999. Later, in Service Quality Standards for Electric Distribution Companies and Local Gas Distribution Companies, D.T.E. 99-84, at 41 (June 29, 2001), the Department directed Fitchburg not to file a PBR until it could incorporate the final guidelines established by that proceeding.

III. DESCRIPTION OF FITCHBURG’S PROPOSAL

Fitchburg’s proposed PBR plan incorporates a price-cap mechanism similar to that used in Boston Gas Company’s PBR Plan (Filing at 2, 5-10).⁴ Fitchburg’s proposed price-cap mechanism allows Fitchburg to adjust its electric distribution base rates annually over the term

²(...continued)

§ 1E authorizing the Department “to promulgate rules and regulations to establish and require performance based rates.” G.L. c. 164, § 1E, inserted by St. 1997, c. 164, § 193 (“Restructuring Act” or “Act”); see also Boston Gas Company v. Department of Telecommunications and Energy, 436 Mass. 233, 235 (2002).

³ Under a price cap, an initial price or set of prices is established. Thereafter, prices are adjusted automatically as a function of inflation rates less an allowance for productivity improvement. A price cap mechanism also incorporates a factor that permits a direct pass-through of specified and pre-determined costs thought to be especially volatile or beyond the utility management’s control. D.P.U. 94-158, at 22; see also Electric Industry Restructuring, D.P.U. 96-100, at 73-74 (1996).

⁴ The other components of the PBR plan include the following: (1) initial PBR rates; (2) a service quality plan; and (3) the term.

of the PBR plan be a factor that reflects price inflation reduced by an enhanced productivity offset, and adjusted for an exogenous cost factor and a service quality revenue penalty factor (Filing at 2). Fitchburg states that its proposed PBR plan for its electric division is in compliance with directives in D.P.U. 94-158, D.T.E. 96-100, and Service Quality Standards for Electric Distribution Companies and Local Gas Distribution Companies, D.T.E. 99-84 (2001) (Filing at Att. FGE-TMB-1, at 9).

With respect to the enhanced productivity offset, Fitchburg proposes that it be set at 0.5 percent (id. at 8). Fitchburg explains that this level was based upon the productivity study conducted by Boston Gas Company in D.P.U. 96-50 (Filing at Att. FGE-RAF-1, at 25-26). Fitchburg argues that a new productivity study based on electric distribution companies would produce results similar to those found in the productivity study conducted by Boston Gas Company in D.P.U. 96-50 (id. at 25-28).

III. ANALYSIS AND FINDINGS

Fitchburg seeks approval of a PBR plan based, in form and in substance, on Boston Gas Company's PBR Plan established in D.P.U. 96-50. Boston Gas Company's PBR Plan, however, expired on November 1, 2001 and, on September 6, 2002, the Department declined to renew it.⁵ Boston Gas Company, D.T.E. 02-37 (2002). Boston Gas indicated that it will be filing a new PBR plan in 2003. Id. at 2. At that time, the Department will review the performance of Boston Gas Company under the expired PBR plan as well as Boston Gas'

⁵ Boston Gas Company's PBR Plan was still in effect at the time that the Department approved the productivity offset for Berkshire Gas Company in D.T.E. 01-56.

proposal for the future. The policies, methods, and procedures developed in that review may be instructive to all distribution companies, including Fitchburg. For reasons of administrative efficiency, therefore, the Department declines to review Fitchburg's proposal for its electric division at this time. The Department instead will close the docket in this proceeding.

By Order of the Department,

Paul B. Vasington, Chairman

James Connelly, Commissioner

W. Robert Keating, Commissioner

Eugene J. Sullivan, Jr., Commissioner

Deirdre K. Manning, Commissioner